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INTERNATIONAL AFFAIRS, DEPARTMENT OF TRANSPORTATION
BEFORE THE HOUSE PUBLIC WORKS AND TRANSPORTATION
SUBCOMMITTEE ON OVERSIGHT AND REVIEW
AUGUST 4, 1981

Mr. Chairman, Members of the Subcommittee:

I am pleased to be here to discuss with you the views of the Department of Transportation on issues of vital concern to the future of the U.S. international air transportation system.

Mr. Chairman, your hearings are particularly timely since the Department of Transportation is presently directing an inter-departmental effort to consider the future implementation of the policy principles set forth in the International Air Transportation Competition Act of 1979. It is important for all interested parties to closely review the tangible effects of that policy and to assess where it may lead in the future. The inter-departmental group that DOT is chairing is in the process of doing just that.

The 1979 Act provides that the government shall develop a negotiating policy which emphasizes the greatest degree of competition that is compatible with a well-functioning international air transportation system. The Act specifies several goals including: increasing the variety of services offered; maximizing reliance on competition by encouraging new entrants and pricing flexibility; developing charter operations; preventing unfair and discriminatory practices; and assuring a financially healthy

and viable U.S. international airline industry. The Department of Transportation has no fundamental objection to the manner in which the goals are written in the law.

Mr. Chairman, I would like to emphasize that the Reagan Administration endorses the basic reliance on a free marketplace as stated in the law. In a free marketplace, the benefits to both consumers and the airlines are maximized. However, the U.S. cannot unilaterally create a free market in international aviation. The goals in the 1979 Act are not completely attainable in every bilateral relationship. In restricted markets, the U.S. Government in the past has permitted introduction of new services by foreign flag carriers if they promised consumer benefits. All too often, foreign governments have not reciprocated. This situation often results in damage to the U.S. carriers' competitive position. The U.S. Government cannot ignore the impact of foreign carrier market leadership on the long-term interests of U.S. consumers. Assuring a strong competitive position for U.S. flag carriers is entirely consistent with the long-term interests of U.S. consumers.

The U.S. desire to allow the marketplace to regulate international air transportation is well known to foreign partners. If they agree to that policy, we are ready to accommodate them. If they decide not to agree, that is their prerogative. However, it then is the responsibility of the U.S. Government to take steps consistent with bilateral agreements to assure that U.S. airlines have a fair and equal opportunity to compete. We should negotiate agreements which contain clear and enforceable terms. We must be prepared to hold the foreign government to the bargain they decide to

strike with us. At the same time, we should not unjustifiably seek to punish foreign governments for properly exercising their sovereign rights.

To date, Mr. Chairman, bilateral agreements containing major new competitive provisions have been signed with 19 of our trading partners. I have submitted for the record documents showing the traffic growth and carrier market share experience resulting from most of these agreements. Analyzing these results is the necessary first step we are taking to determine our future direction. Although a considerable amount of analysis has been attempted, we are not entirely comfortable drawing firm conclusions. First, we know that there are some weaknesses in the INS traffic data base that we have available. Second, we have had relatively limited experience under these bilaterals and in many cases major service adjustments are still underway. Third, any aggregate data is always subject to a variety of interpretations.

New agreements have worked to the benefit of some U.S. carriers by opening up markets that were previously closed. In addition, the agreements have expanded the overall traffic base. They have generally worked to the benefit of the travelling public by expanding services and making available a greater variety of lower fares. Other agreements, however, appear to have resulted in undesirable consequences for the U.S. carriers' competitive and financial success.

When we introduce new U.S. carriers in the market, we must at least realize the possibility that they may end up competing among themselves and with the incumbent U.S. carrier for a share of the market. Unquestionably, the overall size of the traffic "pie" increases through new entry and lower promotional fares. However, the Department of Transportation is concerned that the pie may not increase enough to give any one U.S. carrier a large enough slice to produce profitable operations.

Assuming this occurs, we would expect an airline to react by reducing its capacity to minimize the financial loss. However, the reality of international service makes it difficult for airlines to cutback capacity below a minimum level, usually daily service, and still compete effectively --- particularly against a foreign carrier which may not be facing the same choice either because of market dominance or "deeper pockets." This situation may result in a complete suspension of service by one or more U.S. carriers. In that event, the introduction of new entrants could become an empty victory.

Mr. Chairman, I am sure you are aware of the difficulties confronting U.S. airlines engaged in foreign air transportation. Their financial information indicates that most carriers lost substantial sums of money on international operations during 1980. The economic climate throughout the world over the past two years has had a particularly harsh affect on airlines. Because this industry is labor and fuel intensive, inflation and massive fuel price increases have imposed heavy financial burdens. The effects of worldwide inflation have also dampened the leisure traveller's enthusiasm for expensive international vacations.

Mr. Chairman, as you have heard from many witnesses, the U.S. must work harder to eliminate anti-competitive practices. It is essential that each U.S. operator is assured an equal opportunity to compete for a share of the market. Sometimes the foreign airline has maintained its market share as a result of unfair or anti-competitive practices. This can be true in a liberalized bilateral environment as well as a restricted one. In either case, discriminatory and unfair practices can tie the hands of U.S. carriers and keep them from realizing their superior efficiencies. The freedom we give foreign carriers to operate in the U.S. reflects our domestic economic environment. Each time we sit down at the negotiating table, we must take into account constraints on our carriers' competitive posture imposed by the other country's economic system. If we cannot eliminate these constraints, that fact should be reflected in the benefits we offer to the foreign government.

U.S. carriers continue to suffer from many forms of discrimination in airport ground handling; restrictions on ticket sales; access to computer reservations systems; currency remittances; fuel pricing and availability; and unreasonable, excessive and discriminatory airport and enroute charges. While each item in that list may seem small, taken together such practices severely diminish the U.S. carriers' "fair and equal" opportunity to compete guaranteed by a bilateral agreement. Signing a more competitive bilateral agreement increases the U.S. Government's responsibility to make sure that unfair practices are eliminated.

Accordingly, Mr. Chairman, the Department of Transportation is placing increased emphasis in all of our bilateral contacts on eliminating as many of these unfair practices as possible. Any unfair practice not resolved by the U.S. carriers will become an issue for resolution through government-to-government discussions. We recognize that this may mean a greater role for the government. However, the burden of monitoring the actual results of a new bilateral is a responsibility we must assume.

The U.S. Government now possesses the tools and, I believe, the will to accomplish this task. We understand that such practices are not easily eradicated and must be pursued diligently. We feel certain that in the months ahead, the CAB, with our assistance and that of the State Department, will use its authority to act firmly whenever consultations fail. Finally, as you know, when sunset is accomplished, this authority will transfer to the Department and we expect to use this power whenever the need arises.

In closing, Mr. Chairman, DOT will offer a balanced international aviation policy implemented with pragmatism. We will neither be provocative nor apologetic to our foreign partners. We will work hard to support the interests of all U.S. travellers and shippers and the U.S. carriers.

Mr. Chairman, we appreciate this opportunity to appear before your Committee, and present the views of DOT. In the future, we expect to work closely with you as we implement our policy. We are ready to answer any questions you may have.